

Underwriting Panel Discussion

Satellite and Streaming Video Lender Training

June 22, 2005



Student Materials

U S Department of Veterans Affairs – Veterans Benefits Administration
Loan Guaranty Service
Training Unit - 264B

<http://www.homeloans.va.gov/broadcast.htm>

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Course Outline

Loan Procedures

- Prior Approval/Automatic
- Automated Underwriting Systems

Financing Methods

- ARM's
- Buydowns

Credit Issues

- Documentation
- Adverse Items
- Alternative Credit
- Non-purchasing Spouses

Income Issues

- Documentation
- Types of Income

NOV Issues

- Ordering Process
- Existing/Proposed
- HOA/Special Assessments
- Maintenance & Utilities
- Low Valuations
- Repairs
- Contract Issues
- NOV Requirements

USEFUL WEB SITES

Address (URL)	What's There?
http://vip.vba.va.gov/	Veteran's Information Portal Single sign-in gateway to ACE, TAS and other applications
www.homeloans.va.gov	Lender's Handbook, VA forms, FAQs, e-mail addresses, information pamphlets, links to lists of VA acquired homes, VA Regional Office directory
www.tas.vba.va.gov	The Appraisal System (TAS), appraisal assignments and Notices of Value
http://tas.vba.va.gov/TAS/index.html	Automated Certificate of Eligibility Program (ACE)
www.homeloans.va.gov/elig.htm	Eligibility Centers (eligibility information, FAQs, download 26-1880)
www.vba.va.gov/pubs/forms1.htm	VA Forms
www.nara.gov/regional/mpr.html	National Personnel Records Center (Includes information regarding obtaining military personnel records.)
www.homeloans.va.gov/train.htm	Free training on the VA home loan program, including web-based, computer-based, videotapes, and interactive TV courses.
http://homeloans.va.gov/mortlen1.htm	Find a VA approved lender in any location.
predesignteamfee@vba.va.gov	E-mail address to send comments or suggestions to the Loan Production Redesign Team
http://www.irs.gov/newsroom/article/0,,id=101262,00.html	IRS website to verify types of non-taxable military pay.

Regional Loan Centers

Atlanta, GA

Georgia, Tennessee, North Carolina, South Carolina

(888) 768-2132

Cleveland, OH

Ohio, Michigan, Indiana, Delaware, Pennsylvania,
New Jersey

(800) 729-5772

Denver, CO

Colorado, Wyoming, Montana, New Mexico,
Alaska, Utah, Idaho, Oregon, Washington

(888) 349-7541

Houston, TX

Texas, Arkansas, Oklahoma, Louisiana

(888) 232-2571

Manchester, NH

Maine, Massachusetts, Connecticut, Vermont,
New Hampshire, Rhode Island, New York

(Loan Administration)

(800) 827-0336

(Loan Production/Valuation)

(800) 827-6311

Phoenix, AZ

Arizona, Nevada, California

(888) 869-0194

Roanoke, VA

Virginia, West Virginia, Washington DC,
Maryland, Kentucky

(800) 933-5499

St. Paul, MN

Minnesota, Illinois, Iowa, Nebraska, Kansas,
Wisconsin, North Dakota, South Dakota, Missouri

(800) 827-0611

St. Petersburg, FL

Florida, Alabama, Mississippi

(888) 611-5916

Note: These Regional Offices also have fully functioning Loan Production offices:

San Juan, PR

Honolulu, HI

(787) 772-7212

(808) 433-0480

VA ELIGIBILITY CENTERS

Los Angeles VA Eligibility Center

Mail Service
Department of Veterans Affairs Eligibility Center PO Box 240097 Los Angeles, CA 90024

Toll Free: 1-888-487-1970 Telephone: (310) 235-6199, Ext. 8174

Web site: www.vahomes.org/la/home.htm

The Los Angeles VA Eligibility Center services the following states:

Alaska	Illinois	Nebraska	Texas
Arizona	Iowa	Nevada	Utah
Arkansas	Kansas	New Mexico	Washington
California	Louisiana	North Dakota	Wisconsin
Colorado	Minnesota	Oklahoma	Wyoming
Hawaii	Missouri	Oregon	
Idaho	Montana	South Dakota	

Winston-Salem VA Eligibility Center

Toll Free: 1-888-244-6711

Mail Service	Courier Service
Department of Veterans Affairs Eligibility Center PO Box 20729 Winston-Salem, NC 27120	Department of Veterans Affairs Eligibility Center 251 N. Main St. Winston-Salem, NC 27155

The Winston Salem VA Eligibility Center services the following states:

Alabama	Maine	New York	Virginia
Connecticut	Maryland	North Carolina	Vermont
Delaware	Massachusetts	Ohio	West Virginia
Florida	Michigan	Pennsylvania	
Georgia	Mississippi	Rhode Island	District of Columbia
Indiana	New Hampshire	South Carolina	
Kentucky	New Jersey	Tennessee	

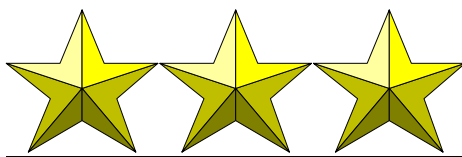
Note: Eligibility Certificates are also available from:

San Juan, PR

Honolulu, HI

(787) 772-7212

(808) 433-0480



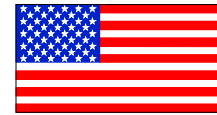
ACE Fact Sheet

- **ACE details are found in Change 3 of the Lender's Handbook, Chapter 2, paragraph 2.03. Please consult Change 3 for all details.**
- ACE allows lenders to input data about a specific veteran-borrower and obtain an eligibility determination on most cases in a matter of seconds via the Internet.
- ACE eliminates the necessity to complete VA form 26-1880, Request for a Certificate of Eligibility.
- ACE is intended for use by lenders who have the veteran's permission to obtain an eligibility determination for them.
- If eligibility is established, the lender simply prints the Certificate of Eligibility.
- ACE is limited to VA recognized lenders with a valid VA assigned lender identification number.
- **ACE is accessed by using <http://tas.vba.va.gov/TAS/index.html> and clicking on the ACE link.**
- ACE generated certificates are not transferable to another lender.
- ACE cannot make all determinations. Some types of cases that cannot be processed through ACE include:
 - Persons whose service was or is in the Reserves/National Guard
 - Persons who may have had prior VA loan(s) that went into foreclosure
 - Persons who did not serve the minimum required length of service and were not discharged for an authorized exception
 - Persons who were discharged under conditions other than honorable
 - Persons for which VA has insufficient data to make the determination
 - Persons seeking restoration of previously used entitlement
 - Unmarried surviving spouses

Department of Veterans Affairs		REQUEST FOR A CERTIFICATE OF ELIGIBILITY FOR VA HOME LOAN BENEFITS		TO	Department of Veterans Affairs Attn: Loan Guaranty Division LA Eligibility Center (344/263) P. O. Box 240097 Los Angeles, CA 90024	
NOTE: Please read information on reverse before completing this form. If additional space is required, attach a separate sheet.						
1. FIRST-MIDDLE-LAST NAME OF VETERAN		2. DATE OF BIRTH		3. VETERAN'S DAYTIME TELEPHONE NO.		
4. ADDRESS OF VETERAN (No., street or rural route, city or P.O., State and ZIP Code)		5. MAIL CERTIFICATE OF ELIGIBILITY TO: (Complete <u>ONLY</u> if the Certificate is to be mailed to an address different from the one listed in Item 4)				
6. MILITARY SERVICE DATA (ATTACH PROOF OF SERVICE - SEE PARAGRAPH "E" ON REVERSE)						
A. ITEM	B. PERIODS OF ACTIVE SERVICE		C. NAME (Show your name exactly as it appears on your separation papers or Statement of Service)	D. SOCIAL SECURITY NUMBER	E. SERVICE NUMBER	F. BRANCH OF SERVICE
	DATE FROM	DATE TO				
1.						
2.						
3.						
4.						
7A. WERE YOU DISCHARGED, RETIRED OR SEPARATED FROM SERVICE BECAUSE OF DISABILITY OR DO YOU NOW HAVE ANY SERVICE-CONNECTED DISABILITIES?				7B. VA CLAIM FILE NUMBER		
<input type="checkbox"/> YES <input type="checkbox"/> NO (If "Yes," complete Item 7B)				C-		
8. PREVIOUS VA LOANS (Must answer N/A if no previous VA home loan. DO NOT LEAVE BLANK)						
A. ITEM	B. TYPE (Home, Refinance, Manufactured Home, or Direct)	C. ADDRESS OF PROPERTY	D. DATE OF LOAN	E. DO YOU STILL OWN THE PROPERTY? (YES/NO)	F. DATE PROPERTY WAS SOLD (Submit a copy of HUD-1, Settlement Statement, if available)	G. VA LOAN NUMBER (If known)
1.						
2.						
3.						
4.						
5.						
6.						
I CERTIFY THAT the statements herein are true to the best of my knowledge and belief.						
9. SIGNATURE OF VETERAN (Do NOT print)				10. DATE SIGNED		
FEDERAL STATUTES PROVIDE SEVERE PENALTIES FOR FRAUD, INTENTIONAL MISREPRESENTATION, CRIMINAL CONNIVANCE OR CONSPIRACY PURPOSED TO INFLUENCE THE ISSUANCE OF ANY GUARANTY OR INSURANCE BY THE SECRETARY OF VETERANS AFFAIRS.						
FOR VA USE ONLY						
11A. DATE CERTIFICATE ISSUED			11B. SIGNATURE OF VA AGENT			

 VA FORM **26-1880**
 MAR 1999

 SUPERSEDES VA FORM 26-1880, SEP 1996,
 WHICH WILL NOT BE USED.



PROOF OF SERVICE

DD-214

The DD-214 is the most common type of proof of service. It has been issued to veterans discharged from all branches of service since January 1, 1950.

What to look for?

- ✓ Veteran's name while in the service
- ✓ Branch of Service
- ✓ Social Security Number
- ✓ Date of Birth
- ✓ Dates of Service (entry date, discharge date, and net active service)
- ✓ Character of Service*
- ✓ Lost Time

NOTE: After October 1, 1979, the form was revised and veterans were issued a "Member-1" and a "Member-4" copy of the DD-214. The "Member-4" copy must be submitted with the VA Form 26-1880 as the character of service and time lost are listed on this form.

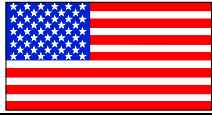
*Any one of the following may be listed in the Character of Service section of the DD-214:

Type of Discharge for Active Duty Veteran	Action
Honorable (HON)	Acceptable
Under Honorable Conditions (UHC)	Acceptable
General (GEN)	Acceptable
Other Than Honorable (OTH)	Requires Adjudication Review
Bad Conduct	Requires Adjudication Review
Dishonorable	Unacceptable

NOTE: The only acceptable character of service for a veteran who served in the Selected Reserves/National Guard is "HONORABLE".

DD-215 - The DD-215 is issued to correct any wrong information on a DD-214. When a veteran submits a DD-215, the DD-214 must also be included.

PROOF OF SERVICE



Proof of Service Prior to 1950

Prior to 1950, each branch of the service issued its own separate proof of service:

Army	WDAGO #53-55
Navy	NAVPERS-553
Air Force	WDAGO #53
Marines	NAVMC78

All required eligibility information is included on the above-listed types of separation forms. However, the information may be difficult to locate as the forms do not have a uniform format.

Certificate of Military Service

The Certificate of Military Service is issued to veterans by the National Personnel Records Center (NPRC) as a substitute for a copy of the actual discharge papers. NPRC issues this record because the original proof of service was lost or destroyed. This is an official document and can be used for verification of military service. It shows the entry date, discharge date and character of service.

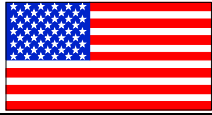
ACTIVE DUTY

Statement of Service

A Statement of Service is required as proof of service when a veteran is serving on active duty or when a reservist continues to serve in the Selected Reserves. There is no official format, but it is usually prepared on military letterhead or is computer generated by the branch of service.

- An acceptable letter will show the veteran's name, service/Social Security number, date of birth, any lost time or breaks in service and date of entry into active duty or the Selected Reserves. If the Statement of Service does not reference any lost time, it should be assumed there was none.
- The character of service is not generally provided on this type of proof of service. When it is not stated, the character of service should be considered "Honorable".
- Finally, the letter should be signed by the adjutant, personnel officer or commanding officer of the unit.

PROOF OF SERVICE



Reservist/National Guard

Unlike members of regular components of the Armed Forces, there isn't one standard form given to members of the Reserves or Guard. Generally, members of the Reserves/Guard will have some type of points summary detailing participation in the Selected Reserves.

The following documents are usually acceptable to establish eligibility:

Reserve/Guard Branch	Required Proof of Service
Army/Air National Guard	NGB-22, Report of Separation and Record of Service
Army Reserve	DARP Form 249-2-E or ARPC Form 606, Chronological Statement of Retired Points
Navy Reserve	NRPC 1070-124, Annual Retirement Point Record
Air Force Reserve	AF-526, Point Summary Sheet
USMC Reserve	NAVMC-798
Coast Guard Reserve	CG-4175

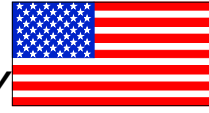
Discharge Certificate

The discharge certificate is issued to both regular military and reservist veterans. It can be used as proof of character of service for a reservist when only a points statement is available.

Note: The minimum required length of service for a Reserve/National Guard member is six (6) years of active reserve duty.



QUICK REFERENCE FOR VA ELIGIBILITY



VETERAN'S ENTITLEMENT FOR LOAN GUARANTY BENEFITS

ERA	DATES	MINIMUM SERVICE*
WWII	9/16/40 - 7/25/47	90 continuous days
Peacetime	7/26/47 - 6/26/50	181 days
Korean	6/27/50 - 1/31/55	90 days
Post-Korean	2/1/55 - 8/4/64	181 days
Vietnam	8/5/64 - 5/7/75	90 days
Post-Vietnam (Enlisted)	5/8/75 - 9/7/80	181 days
Post-Vietnam (Officer)	5/8/75 - 10/16/81	181 days
Post-Vietnam (Enlisted)	9/8/80 - 8/1/90	2 years
Post Vietnam (Officer)	10/17/81 - 8/1/90	2 years
Persian Gulf	8/2/90 - undetermined	2 years or period called to active duty, not less than 90 days

OTHER ELIGIBLE PERSONS	MINIMUM SERVICE REQUIRED
Active duty member**	90 continuous days (181 during peacetime)
Active Reserve or National Guard	6 years in Selected Reserves
Unremarried surviving spouse***	No time requirement. Veteran must have died on active duty or from a service-connected disability.
POW/MIA spouse	Veteran must have been POW or MIA 90 days.

**A veteran who has served less than the minimum required period of service or was discharged because of a service-connected disability, may be eligible for home loan benefits. Other categories of exceptions can be found in Chapter 2, Section 5 of the Lender's Handbook.*

***Certificate only valid while veteran remains on active duty*

****For IRRRLs only, the surviving spouse of a deceased veteran may do an IRRRL using the veteran's Certificate of Eligibility. The spouse, in this case, does not have separate entitlement.*

INELIGIBLE SERVICE:

World War I, Active duty for training in Reserves, Active duty for training in National Guard (*Unless "activated" under authority of Title 10, U.S. Code*)

INCOME - A Quick Reference Guide for VA Loans

1. Overtime, Part Time, Second Jobs, & Bonuses
 - *generally need two years*
 - *regular & predictable*
 - *likely to continue*
 - *compatible hours of duty*

(If between one & two years use to offset intermediate term debts: 10-24 months)
2. Commissions
 - *generally need two years*
 - *complete tax returns*
 - *VOE with ytd earnings, basis & intervals for payment*
3. Self Employment
 - *complete tax returns (2 yrs) + interim P & L and Balance Sheet*
 - *corporation/partnership: list of owners*
4. Active Duty Military
 - *Leave & Earnings Statement*
 - *12 months remaining OR reenlistment verification OR subsequent income verification*
5. Rental Income
 - *present residence: offset mortgage payments only*
 - *multi-unit dwelling: 6 months reserves AND likelihood of success as landlord*
 - *other rent property: 3 months reserves AND 2 years tax returns*
6. Alimony, Child Support & Maintenance Payments
 - *applicant must want considered*
 - *written agreement/court decree*
 - *length & regularity of receipt*
 - *ability to compel payment*
7. Automobile Allowances
 - *offset car payment*
 - *excess over car payment with proper documentation*
8. Other Eligible Income
 - *pension/retirement*
 - *disability*
 - *dividends*
 - *interest*
 - *royalties*
 - *public assistance if at least 3 years remaining*
 - *workman's comp if for foreseeable future AND vet wishes to reveal*
 - *unemployment if regular due to seasonal work*
 - *foster care as offset only*

ADVERSE CREDIT ISSUES

A Quick Reference Guide for VA Loans

1. **SLOW PAYS:** Generally acceptable as long as *most recent 12 months* are clear.
2. **COLLECTION ACCOUNTS:** OK if paid off *over 12 months* ago, but do not necessarily *have* to be paid off. Consider bona fide or legal defenses. Payment *after acceptability of credit is questioned* does not improve credit worthiness.
3. **JUDGMENTS:** Must be *paid off* or on an *acceptable repayment plan* with *history* of timely payments.
4. **BANKRUPTCY (Liquidation):**
 - *Within the last 12 months:* can generally *not* qualify
 - *Within the last 12- 24 months:* can qualify under certain circumstances:
 - a. caused by documented circumstances *beyond control* AND with *subsequent favorable references* over continued period, OR
 - b. caused by *self-employment* AND obtains *permanent position* AND no bad credit *before self-employment* or *after bankruptcy*, AND business failure *not* caused by *misconduct*.
 - *Over 24 months:* can generally disregard
5. **BANKRUPTCY (Wage Earner Plan):** OK if satisfactorily *completed*. OK if still in repayment and with a *satisfactory payment history* for last 12 months AND *approval of court*.
6. **CONSUMER CREDIT COUNSELING:** OK if started *before* delinquency and completed or still current. OK if started *after* delinquency and *completed satisfactorily*. If started *after* delinquency and *still in progress*, must have a *12 month satisfactory history* and *approval of credit counselor*.
7. **FORECLOSURES:**
 - **FHA & Conventional:** OK if on *assumer*. If on *borrower*, apply Liquidation Bankruptcy guidelines above.
 - **VA:** Veteran must have paid any applicable loss or must have sufficient remaining entitlement. Apply FHA/Conventional guideline above.
8. **FEDERAL DEBTS:** Must be *paid in full* OR on an *acceptable repayment plan*.

THIS IS ONLY A SUMMARY. CONSULT THE LENDER'S HANDBOOK, CHAPTER 4, FOR ADDITIONAL INFORMATION.

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7.			

Lender's Handbook, Chapter 4, Paragraph 4.09

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7.			

Key to Geographic Regions Used in the Preceding Tables			
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

VA Funding Fee Table						
	Old Law		New Law			
	Expires 12/31/2003		01/01/2004-09/30/2004		10/01/2004-09/30/2011	
	Funding Fee %	Reservist FF %	Funding Fee %	Reservist FF %	Funding Fee %	Reservist FF %
Purchase Loan Zero Down (includes HARMS)	2%	2.75%	2.2%	2.4%	2.15%	2.4%
Subsequent Loan (incl. HARMS)	3%	3%	3.3%	3.3%	3.3%	3.3%
5% Down (includes HARMS)	1.5%	2.25%	1.5%	1.75%	1.5%	1.75%
10% Down (includes HARMS)	1.25%	2%	1.25%	1.5%	1.25%	1.5%
IRRRL	.5%	.5%	.5%	.5%	.5%	.5%
NADLP	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Assumption	.5%	.5%	.5%	.5%	.5%	.5%

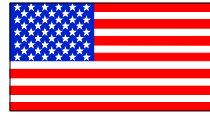
The law provides permanent authority for housing loans for persons qualifying based on service in the Selected Reserve. Previously, eligibility for this group was set to expire on September 30, 2009.

BECOMING A VA APPROVED UNDERWRITER

(From *Lenders Handbook*, Chapter 1.)

Criteria	Required Documentation
<p>Qualified Underwriter(s)</p> <p>A senior officer of the lender must nominate at least one full-time qualified employee to act as an underwriter who has either:</p> <ul style="list-style-type: none"> • at least three years' experience in processing, pre-underwriting or underwriting mortgage loans • at least one year of the most recent three years must have included making underwriting decisions on VA loans, or • a current ARU (Accredited Residential Underwriter) designation from the Mortgage Bankers Association (MBA), or • all VA-approved underwriters must be familiar with VA's credit underwriting standards and this Lender's Handbook. 	<p><i>For all underwriters</i></p> <p>VA Form 26-8736a, No supervised Lender's Nomination and Recommendation of Credit Underwriter, completed by a senior officer if the underwriter is not located in the lender's corporate office, a senior officer's certification that the underwriter reports to and is supervised by an individual who is not a branch manager or other person with production responsibilities</p> <p><i>Additional documentation for underwriters qualifying based on 3 years' experience</i> Underwriter's resume, outlining the underwriter's specific experience with VA loans.</p> <p><i>(Note:</i> For purposes of determining whether the experience criteria are met, IRRRLs do not count as processing, pre-underwriting or underwriting.)</p> <p><i>Additional documentation for underwriters qualifying based on ARU designation</i></p> <p>Evidence that he or she is a current ARU as designated by the MBA.</p> <p>See "Underwriter Approval" in Section 1.07 for mandatory training requirements for newly approved underwriters and underwriters who have not underwritten VA loans in the past 24 months.</p>

BECOMING A VA APPROVED UNDERWRITER



(From *Lenders Handbook*, Chapter 1.)

Underwriter Approval

All VA loans to be closed on an automatic basis must be reviewed and either approved or rejected by a VA-approved underwriter.

A VA-approved underwriter must sign a [VA Form 26-6393, Loan Analysis](#), on each loan to certify his or her review of such loan.

The lender may request approval of additional underwriters at any time after its initial approval for automatic authority by submitting a request to the VA office with jurisdiction over its home office, including

- the appropriate fee (See Section 1.11)
- the documentation for underwriter approval described under “Procedures and Criteria for Qualification” in Section 1.05.

All VA-approved underwriters must be familiar with VA’s credit underwriting standards and this Lender’s Handbook.

All VA-approved underwriters must attend a one-day (eight hour) training course on underwriter responsibilities, VA underwriting requirements, and VA administrative requirements, including the usage of VA forms, within 90 days of approval. If the VA office of jurisdiction is unable to make such training available within 90 days, the underwriter must attend the first available training. This training is required of **all** underwriters whether approved based on experience or based on an ARU designation. It is also required of underwriters who have not underwritten VA guaranteed loans in the past 24 months. Underwriters who consistently approve loans that do not meet VA credit standards may be required to retake this training.

VA approval of an underwriter is automatically terminated (without notice) if the underwriter is no longer employed by the same lender. The lender **must** report any such circumstances to VA.

The lender may **not** continue to close loans automatically without a VA-approved underwriter.

The Veterans Benefits Act of 2004

1. PURPOSE: S. 2486, the Veterans Benefits Act of 2004, was signed by the President on December 10, 2004. A Public Law number has not yet been assigned. This circular explains provisions affecting the Loan Guaranty Program.

2. BENEFIT CHANGES

a. Maximum Guaranty Amount. The law changes the maximum guaranty amount of \$60,000, for certain loans in excess of \$144,000, to an amount equal to 25 percent of the Freddie Mac conforming loan limit determined under section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act for a single family residence, as adjusted for the year involved. To illustrate, the maximum guaranty for 2005 would be \$89,912. This is 25 percent of the 2005 Freddie Mac conforming loan limit for a single family residence of \$359,650. Under Freddie Mac's charter, maximum original loan amounts are 50 percent higher for first mortgages on properties in Alaska, Hawaii, Guam and the U.S. Virgin Islands. This higher amount would also apply to VA loans in these areas.

b. Specially Adapted Housing. The law expands eligibility to the \$50,000 Specially Adapted Housing (SAH) grant to veterans with permanent and total service-connected disabilities due to the loss of, or loss of use, of both upper extremities such as to preclude use of the arms at or above the elbows. Detailed instructions to VA field stations will be forthcoming. In addition, Title 38, Section 1151, is amended to specify eligibility where any veteran has suffered an injury, or an aggravation of an injury, as the result of hospitalization, medical or surgical treatment, as if it were service-connected for benefits under Chapter 21, relating to SAH.

c. Adjustable Rate Mortgages. The law gives VA authority to guarantee "traditional" Adjustable Rate Mortgages (ARMs) in a manner similar to that by which HUD insures adjustable rate mortgages under section 251 of the National Housing Act. VA previously had this authority but it expired September 30, 1995. The legislation provides authority through September 30, 2008. Key features of this program are:

- (1) Interest rate adjustments on an annual basis;
- (2) Annual interest rate adjustments limited to a maximum increase or decrease of 1 percentage point;

LOCAL REPRODUCTION AUTHORIZED

(3) Interest rate increases limited to a maximum of 5 percent points over the life of the loan;

(4) This type of ARM loan **MUST** be underwritten at 1 percentage point above the initial rate.

d. Hybrid ARM Loans

(1) *Extension of Authority.* The law extends VA authority to guarantee hybrid ARM loans to September 30, 2008.

(2) *Modification of Interest Rate Adjustment Requirements:*

(a) If the initial contract interest rate remains fixed for less than 5 years, the initial adjustment is limited to a maximum increase or decrease of 1 percentage point and the interest rate increase over the life of the loan is limited to 5 percentage points.

(b) If the initial contract interest rate remains fixed for 5 years or more, the initial adjustment will be limited to a maximum increase or decrease of 2 percentage points.

(c) In cases where the initial interest rate remains fixed for 5 years or more, the interest rate increase over the life of the loan will be limited to 6 percentage points.

(3) *Effect on hybrid ARMS Guaranteed prior to Enactment of the Act.* The provisions of this Act will not affect existing hybrid ARMs. VA hybrid ARM loans made prior to this Act will be subject to the terms in effect at the time they were made. For example, a hybrid ARM with an initial fixed rate for 5 years or more made prior to this Act is limited to a 1 percentage point initial adjustment and a 5 percent limit over the life of the loan.

e. Native American Direct Loan Program (NADL). The authority to make direct loans under the NADL program has been extended to December 31, 2008.

f. Funding Fee Exemption. The law expands the definition of veterans who are in receipt of compensation and thus entitled to a waiver of the VA funding fee. Veterans who are rated eligible to receive compensation as a result of a pre-discharge disability examination and rating will now be considered as receiving compensation as of that date. This means veterans still on active duty awaiting discharge, but who wish to close on a loan before being released from the military, may be entitled to a waiver of the funding fee.

2.

g. Effective Date. All provisions became effective upon the signing of the Act into law.

h. Temporary Procedures. Until we accomplish necessary system updates, lenders processing loans involving entitlement greater than \$60,000 or traditional 1 year ARMs must submit them to the appropriate VA office for processing. We will put notification on the Veterans Information Portal when system updates have been accomplished and lenders can then process applicable loans through Web-Based Loan Summary Sheet (WBLS).

3. STATION PROCEDURES. Stations should disseminate this information as widely as possible using their local websites. It is not necessary to prepare “hard copy” local releases, although, stations may do so at their discretion. Central Office will place this circular on the Loan Guaranty website and there will also be a link from the portal. Central Office will be providing further information on aspects of the law as needed. We anticipate that all necessary system updates will be completed sometime in January 2005.

4. RESCISSION. This circular is rescinded January 1, 2006.

By Direction of the Under Secretary for Benefits

Keith Pedigo, Director
Loan Guaranty Service

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INTERNET TRAINING PROGRAM ON VA CREDIT STANDARDS

(From Circular 26-01-3, Revised)

BACKGROUND. The VA Credit Standards (see *Lenders Handbook, VA Pamphlet 26-7, Revised, Chapter 4*) are the essential guidance for underwriting VA home loans. Private sector loan underwriters and VA loan specialists need a thorough and comprehensive understanding of these standards in order to process or review VA home loans. In order to provide consistent training in VA Credit Standards, Loan Guaranty Service will be making available on April 2, 2001 a new free self-paced course on the Internet entitled “**Hometown USA: VA Credit Standards.**” The course includes lessons on the following topics:

- a. Overview of VA Home Loan Credit Standards
- b. Overview of the Loan Analysis Form.
- c. Eligibility
- d. Type of Loan
- e. Certificate of Reasonable Value
- f. Loan Amount
- g. Assets
- h. Monthly Payments
- i. Debt and Credit History
- j. Income
- k. Residual Income
- l. Debt-to-Income Ratio
- m. Render Final Decision

TRAINING FOR VA-APPROVED UNDERWRITERS. *The Lenders Handbook* (par. 1.07) states, “**All VA-approved underwriters must be familiar with VA’s credit underwriting standards....**” and the same paragraph requires that:

“All VA-approved underwriters must attend a 1-day (8 hour) training course on underwriting responsibilities, VA underwriting requirements, and VA administrative requirements, including the usage of VA forms,

within 90 days of approval. If the VA office of jurisdiction is unable to make such training available within 90 days, the underwriter must attend the first available training. This training is required of **all** underwriters whether approved based on experience or based on an ARU designation. It is also required of underwriters who have not underwritten VA guaranteed loans in the past 24 months. Underwriters who consistently approve loans that do not meet VA credit standards may be required to retake this training.”

The web based training program, successfully completed, will fulfill the above training requirement.

HOW TO TAKE THIS COURSE ON THE INTERNET

a. Beginning April 2, 2001, lender employees may access the course at <http://homeloans.va.gov/train.htm> using any standard Internet browser. Users will be asked to login using their e-mail address as a password. They will subsequently be asked to enter their name and the 10-digit Lender Identification Number assigned to their company by VA. All instructions on how to take the course will be presented on-screen.

b. Paper-based course materials will need to be downloaded and printed at certain points within the course. This course will take the average user approximately 8 hours to finish, and can be completed at the user’s own pace and convenience.

c. At the conclusion of the course there is a final examination. When the user passes the final exam the program will print out a certificate of completion. The student’s supervisor should sign the certificate of completion, attesting that the student completed the final exam personally and without assistance. This certificate will be retained as proof of successful completion of the training. VA will also be able to verify successful completion of the course by means of the program’s software.



VIDEOTAPES, STREAMING VIDEOS & CD's AVAILABLE

As a service to our private-sector partners, Loan Guaranty makes available the tapes of our interactive televised training broadcasts. Costs of taped broadcasts are \$34.95 per tape. Tapes will be available after each broadcast by calling **Multi Video Services at 1-800 800-DUBS (3827).**

2004 & 2005 Broadcast Tapes Available:

Lender Appraisal Processing Program – February 9, 2005
Closing the Loan Package – March 16, 2005
Processing the Loan Package – April 13, 2005
Loan Related Issues for Active Duty Personnel – May 11, 2005

Credit Underwriting – February 11, 2004
Fee Appraiser Training – March 17, 2004
Real Estate Professionals Panel– April 7, 2004
Processing the Guaranty – May 11, 2004
Lender Appraisal Processing Program – June 16, 2004
What's New / Web Based Loan Summary Sheet – September 15, 2004

Streaming Internet and Videos

Loan Guaranty has produced 18 short training videos (10-20 minutes in length) to support lender training on the various aspects of the VA Home Loan Program. The videos are available via On-Demand streaming video at <http://www.homeloans.va.gov/train.htm> or for purchase (\$19.95 each) in VHS format from **Multi Video Services at 1-800-800 DUBS (3827).**

Short Video Titles:

Overview of the VA Home Loan Program
VA Appraisals
VA Minimum Property Requirements (MPRs)
VA Eligibility
Underwriting Self Employed Borrowers
Bankruptcy in Underwriting
ACE Update - Automated Certificate of Eligibility
Appraisal Appeal
Loans for Newcomers
Credit Issues in Underwriting
Automated Underwriting Systems
Thinking of Refinancing?
Energy Efficient Mortgages
Proposed vs. New Construction
TAS (The Appraisal System)
Working with VA (Becoming a VA Approved Lender)
Thinking of Buying a Home?
Thinking of Selling Your Home?

Information on the VA Home Loan Program for Real Estate Professionals

This award winning CD is available at no cost from Regional Loan Centers. It dispels myths about VA Home Loan procedures and contains basic information about the home loan program and website links.

COURSE EVALUATION - 6-22-2005

Please use your keypad to answer the following questions. The last digit in the number displayed on your keypad corresponds to the questions below. The possible response choices will be displayed on your keypad. After entering your response, press the "NEXT QUEST" key to see the next set of responses. You may change a response to a previously answered question by using the "PREV QUEST" or "NEXT QUEST" keys to scroll to the answer you want to change and enter a new response. When you have answered all the questions, you will be prompted to answer this additional question: "Exam Completed?" If you are finished, please answer "Yes" by pressing the corresponding function key.

For items 1-10 below, please rate the extent to which you agree with each of the statements by selecting:

A - you strongly agree B - you agree C - you disagree
D - you strongly disagree E - item not applicable

1. The broadcast was relevant to my job needs.
2. The broadcast met the stated objectives.
3. The student materials facilitated my understanding of the course.
4. I feel that I can apply what I have learned in this broadcast.
5. The visuals used during the class helped me learn the course content.
6. The instructors demonstrated a firm grasp of the subject matter.
7. The instructors communicated the material effectively.
8. I was able to get my questions answered.
9. Participants at my site were attentive to the broadcast.
10. Interactive distance learning was an effective method for this course.

For 11-14 below, select the appropriate option by entering A, B, or C.

- | | | | |
|---------------------------|----------------------|------------------------|-----------------------|
| 11. Length of broadcast: | A - too short | B - about right | C - too long |
| 12. Amount of information | A - too much | B - about right | C - too little |
| 13. Complexity of course | A - too basic | B - about right | C - too hard |
| 14. Pace of course | A - too slow | B - about right | C - too fast |

For questions 15-16, please rate degree to which you were satisfied with the instructors and course by selecting:

A - very satisfied B - satisfied C - neutral
D - dissatisfied E - very dissatisfied

- | | | | | | |
|--------------------------------------------------|---|---|---|---|---|
| 15. How satisfied were you with the instructors? | A | B | C | D | E |
| 16. How satisfied were you with the course? | A | B | C | D | E |

At this time, "Exam Completed?" should appear on your response keypad. Pressing "N" will allow you to go back and review and/or change any answers. Pressing "Y" indicates that your evaluation form is complete.

Thanks for your help